indue
empowering financial solutions

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General Manager
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The Treasury
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Attn: Rob Della-Costa

Via email: financialsupplies@treasury.gov.au

Dear Sir,

RE: Financial supply provisions review paper

I am writing to provide comments on the Treasury's consultation paper on the review of the financial supply provisions issued on Tuesday 12 May 2009.

1.0 Background on Indue Ltd

Indue is a Credit Union Service Organisation (formerly CreditLink Services Ltd) and supplies vital back office transaction processing and settlement services to principally credit unions, but also provides services to building societies, church funds and other small non-bank financial institutions.

Indue provides a vital processing and settlement role in the Australian Payments System on behalf of credit unions, whom without Indue, would be too small individually to be able to provide a competitive alternative financial services offering to millions of Australians.

Indue is presently wholly owned by credit unions.

Indue's shareholders are members of Abacus, the trade association representing credit unions, mutual building societies and other similar organisations. Indue has consulted with Abacus in relation to this submission and lends its strong support to the Abacus submission.

2.0 Overview

Indue does not hold the view that a change to the GST legislation will result in reduced complexity, but rather introduces uncertainty and potentially more complexity into the system. The various models were widely canvassed during the introduction of the GST legislation and the existing system selected as the most appropriate.

Indue submits that the case for change has not been made. The existing GST system has been in operation for approximately 9 years and the legislation, regulations and subsequent rulings have developed into a stable, reliable and reasonably well understood framework that results in a fair tax outcome for smaller and larger financial institutions. Significant costs have already been endured in the implementation of the existing system.

Smaller institutions have undertaken the necessary work to implement and develop the systems to accommodate the GST legislation and demonstrate a high degree of compliance with the law. Now that this system has been bedded down and is reasonably well understood by smaller financial institutions there would need to be compelling reasons put forward to make changes to this system. Smaller financial institutions do not possess the internal skill sets to undertake such projects without a material impact on the focus of these resources away from more productive endeavours. For the smaller institutions and regional institutions where appropriately skilled resources are extremely difficult to source will experience significant difficulty, even with the support of a trade organisation, to make changes to their GST systems, or assess what changes may be required.

We submit that the case for change has not been made and we are not aware of any major economies that have chosen to change the GST rules to a principle-based approach after implementation without a policy reason to do so.

Indue strongly recommends that the government retain the existing financial supply provisions and the existing legislative structure. The case needs to be built that any change would produce a framework that was substantially improved to justify the compliance cost of the change for Australian businesses. The introduction of principle-based rules will also introduce a level of uncertainty themselves. This uncertainty is not resolved by the availability of private rulings as smaller financial institutions simply do not have the depth of resource to dedicate to undertaking the process of obtaining a private ruling.

3.0 Key Issues

Indue lends its strong support to the Abacus submission and limits its comments to the following key issues.

3.1 List of what is, and what is not a financial supply.

Indue's view is that the current list of what is and what is not a financial supply is useful in providing certainty and should be retained. Indue does not currently have any interpretative or administrative concerns and therefore does not believe a single list would resolve any of these.

3.2 Impact of RCAs on financial institutions use of outsourcing and subcontracting services?

The introduction of RCAs has allowed Indue's credit union customers to continue to compete on a more level footing with larger institutions, by removing the in-sourcing bias inherent in the financial supply provisions of the GST legislation. It is a fair and reasonable approach to addressing a recognised competitive disadvantage, which has been implemented in many similar GST jurisdictions.

3.3 Distortions and tax planning opportunities

Indue is not aware of any distortions or tax planning opportunities that have resulted in the creation of special purpose vehicles to reduce tax. Indue has continued to supply services to credit unions and similar non-bank financial institutions where it makes economic sense to do so, due to the ability of Indue to generate economies of scale or economies of skill, that smaller financial institutions simply cannot.

The credit union industry does not have a history of engaging in extensive tax planning or tax schemes. Indue charges individual fees for services that are directly related to the cost base of those services and does not charge for services on a bundled basis.

3.4 Further clarification of RCAs

Indue is of the view that Item 16 should be expanded to include services to "credit unions *or building societies*" by service organisation "wholly owned by credit unions *and/or building societies*", with similar amendments made for the clause on subsidiaries. The policy reasons that existed at the time of the introduction of item 16 are still relevant today, however the credit union and building society industry have grown much closer over this time, reflecting the fact that they are very similar organisations with a similar reason for existence.

It is inevitable that a credit union and a building society will merge in the near future and this action of itself may result in all Indue credit union customers losing access to item 16. However the underlying rationale for Indue's existence will not have changed. This seems an unintended consequence of the legislation relative to the original policy intention of removing an in-sourcing bias disadvantaging smaller financial institutions. In this sense building societies are no different to credit unions and are similarly reliant on bodies like Indue to undertake their payment processing.

Making the above mentioned change to item 16 would ensure that its original intent is preserved.

3.5 Proposed changes to the existing list of RCAs

There is a further service that is provided by service organisation such as Indue which is best described as "*transactional fraud monitoring and reporting services and anti-money laundering transaction monitoring and reporting services*". These services did not exist at the time of release of the original RCA rules. Since that time Indue has been required to build transactional monitoring capability for credit unions and building societies. Currently credit unions can claim an RITC on these services from Indue, under item 16.

However, it would be reasonable for this service to be included as an additional service eligible as an RCA. It is a service whose cost base is largely made up of human resource costs for employees to undertake transaction monitoring and contacting of customers in the event of a suspicious transaction and therefore it fits well with the other services receiving an RITC under the current rules.

Indue submits that '*transactional fraud monitoring and reporting services and anti-money laundering transaction monitoring and reporting services*" should be included on the list of RCAs.

Indue's view is that the most sensible outcome would be to amend the rules as outlined in the paragraph above rather than adopt s set of principles which are not guaranteed to improve the current environment, nor address these concerns.

3.6 RITC rate

Indue's view is that an RITC rate of 75% remains appropriate.

During the introduction of GST, the credit union industry provided documentation to the Federal Treasury which supported a RITC rate of more than 75 per cent and an agreement on rate was reached between the government and relevant stakeholders that was reflective of the objective it set out to achieve.

Since the implementation of GST, the behaviours of the credit union industry has not changed. That is, most have lacked the ability to have services provided in-house (self-supply) and have had to continue to out-source. At the same time, the larger financial institutions have become much larger and it is becoming increasingly difficult for small financial institutions to compete in the market to provide choice and services to their customers. This is evidenced by the mergers within the industry.

During implementation, the government supported an RITC rate that was designed to ensure neutrality, rather than having a bias to set a lower rate for revenue reasons. This position was also supported by the industry at the time.

Accordingly, we submit the RITC rate should remain at 75 per cent.

3.7 Differing Rates

A single rate should remain for ease of administration. Whilst it may be possible to create different rates for different types of acquisitions, this may instead create tax planning opportunities for organisations that are better resourced to assess the differences closely. Smaller financial institutions will be burdened with more compliance costs and larger organisations may use this as an opportunity to reduce their tax contribution relative to smaller organisations.

Multiple rates will require a review of the existing systems and procedures, as well as the general ledger codes. These reviews will create substantial project costs. In addition, multiple rates are likely going to create additional procedures which will add to the existing administrative costs. Accordingly, we do not support the change of RITC to a multiple rates framework.

Should you have any questions in relation to our submission, I would be pleased to discuss the above matters with you in person or on (07) 3258 4236.

Yours faithfully,

Derek Weatherley
Chief Financial Officer